

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Melvindale</u>	County Wayne
Audit Date December 31, 2003	Opinion Date May 21, 2004	Date Accountant Report Submitted To State: June 11, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Hwy	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Melvindale, Michigan

Financial Report with Supplemental Information December 31, 2003

City of Melvindale, Michigan

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Independent Auditor's Report

To the City Council
City of Melvindale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Melvindale, Michigan as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Melvindale, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Melvindale, Michigan as of December 31, 2003 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Melvindale, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Melvindale, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2004 on our consideration of the City of Melvindale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 17, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2003.

Plante & Moran, PLLC

May 21, 2004

City of Melvindale, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Melvindale, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2003. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2003:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by 7.6 percent from the prior year. The City has experienced a total decrease of 12 percent since 2000. The City reacted by holding discretionary spending amounts to the same level as the prior year and delaying the filling of open personnel positions. State-shared revenue accounts for approximately 22 percent of the City's total General Fund revenue.
- Property taxes are the City's single largest source of revenue. The City's taxable value for 2003 was \$185,404,453, which represents an increase of 2.9 percent from 2002. The City's operating, refuse, and library millage rates, however, were rolled back as required by the Headlee Amendment and Proposal A. Through Proposal A, growth on existing taxable value is limited to the Consumer Price Index or 5 percent, whichever is less. In 2003, the inflation factor was 1.5 percent.
- The City took advantage of decreased interest rates and defeased its 1997 Building Authority Bonds, Series A and B that had an interest rate ranging from 4.80 percent to 7.00 percent, issuing new general obligation bonds with an interest rate ranging from 1.25 percent to 4.40 percent. The advance refunding reduced total debt service payments over the next 18 years by approximately \$138,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date (in thousands of dollars):

TABLE I

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 2,320	\$ 873	\$ 3,193
Noncurrent assets	<u>7,677</u>	<u>13,044</u>	<u>20,721</u>
Total assets	9,997	13,917	23,914
Liabilities			
Current liabilities	1,763	982	2,745
Long-term liabilities	<u>2,782</u>	<u>8,334</u>	<u>11,116</u>
Total liabilities	4,545	9,316	13,861
Net Assets			
Invested in capital assets - Net of related debt	5,789	3,724	9,513
Restricted	497	811	1,308
Unrestricted (deficit)	<u>(834)</u>	<u>66</u>	<u>(768)</u>
Total net assets	<u>\$ 5,452</u>	<u>\$ 4,601</u>	<u>\$ 10,053</u>

The City of Melvindale has combined net assets of \$10.1 million. Business-type activities comprise \$4.6 million of the total net assets. In future reports, comparative data will be provided for the statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34; therefore, a comparative statement of activities is not part of management's discussion and analysis.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year (in thousands of dollars):

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 2,586	\$ 3,694	\$ 6,280
Operating grants and contributions	828	-	828
Capital grants and contributions	393	-	393
General revenue:			
Property taxes	4,204	-	4,204
State-shared revenue	1,873	-	1,873
Unrestricted investment earnings	11	-	11
Franchise fees	95	-	95
Miscellaneous and other revenue	229	(7)	222
Total revenue	10,219	3,687	13,906
Program Expenses			
General government	2,860	-	2,860
Public safety	4,489	-	4,489
Public works	1,938	-	1,938
Health and welfare	145	-	145
Community and economic development	184	-	184
Recreation and culture	272	-	272
Interest on long-term debt	98	-	98
Water and sewer	-	2,734	2,734
Ice arena	-	1,001	1,001
Total program expenses	9,986	3,735	13,721
Change in Net Assets	\$ 233	\$ (48)	\$ 185

Governmental Activities

The City's total governmental revenues decreased by only approximately \$5,300, despite decreases in state-shared revenue, charges for services, and fines and forfeiture income. These decreases were partially offset by increases in property taxes (the result of a voter-approved Headlee override), licenses and permits (reflecting new construction occurring in the City), federal grants, interest and rentals, and a one-time legal settlement.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

Expenses increased by about \$191,000 during the year. Increases were led by a large increase in public safety cost (police and fire). To offset this, the City closely monitored its spending in all other areas, including seasonal hiring and filling open positions.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Ice Arena Fund. We provide water to residents from the Detroit Water System. Both business-type activities had positive operating income - Water and Sewer approximately \$341,000 and Ice Arena approximately \$58,000.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2003 include the General Fund, Water and Sewer Fund, and Ice Arena Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$3,429,000 in 2003, and represents 38.5 percent of the total General Fund expenditures. The entire cost of the police and fire departments is funded by general revenue sources of the General Fund.

The overall General Fund performance for 2003 resulted in the final elimination of the fund balance deficit incurred in 2001. The City's General Fund went from a deficit of \$101,513 at December 31, 2002 to a surplus of \$88,761 at December 31, 2003.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account various events during the year. The most significant change was to decrease the estimated District Court expenditures by \$58,000, reflecting new cost projections from the Court. The total General Fund actual expenditures were approximately \$158,000 below the amended budget.

City of Melvindale, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of 2003, the City had approximately \$19,284,000 of capital assets, including buildings, police and fire equipment, water and sewer lines, and roads (approximately \$9,513,000 net of related debt). The City also took advantage of decreased interest rates and defeased its 1997 Building Authority Bonds, Series A and B that had an interest rate ranging from 4.80 percent to 7.00 percent, issuing new general obligation bonds with an interest rate ranging from 1.25 percent to 4.40 percent. The advance refunding reduced total debt service payments over the next 18 years by approximately \$138,000.

Economic Factors and Next Year's Budgets and Rates

The future remains challenging for the City of Melvindale. The City benefited from a significant one-time revenue source in 2003 that will not repeat. The City has been required to spend only minimal amounts on general capital needs in recent years due to its financial condition and the General Fund budget is heavily impacted by fluctuations in health care costs. Additionally, despite the successful Headlee override vote in 2002, the City's operating, refuse, and library millage rates are being rolled back again, as required by the Headlee Amendment and Proposal A. Along with other municipalities, the City faces the potential liability associated with refunding certain personal property taxes paid by utilities, which would negatively impact the City and exhaust the General Fund fund balance from December 31, 2003.

Water and sewerage rates are scheduled to increase approximately 7.5 percent in 2004, reflecting Detroit water and sewer rate increases and the City's water bond covenant. The City projects increased unit sales in 2004 versus 2003 due to new construction within the City and increased inspection and replacement of meters.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the finance director or city administrator's office.

City of Melvindale, Michigan

Statement of Net Assets December 31, 2003

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 508,398	\$ 2,063	\$ 510,461	\$ 614,525
Receivables - Net of allowance of \$200,000	689,071	1,231,167	1,920,238	38,833
Internal balances	486,664	(486,664)	-	-
Accounts receivable from primary government (Note 6)	-	-	-	90,221
Due from other governmental units	636,273	-	636,273	184,745
Inventories	-	-	-	36,088
Prepaid costs and other assets	-	126,510	126,510	-
Long-term advance to (from) other funds	56,926	(56,926)	-	-
Restricted assets (Note 8)	-	1,437,502	1,437,502	-
Nondepreciable capital assets - Net (Note 5)	1,188,652	-	1,188,652	-
Depreciable capital assets - Net (Note 5)	6,431,715	11,663,558	18,095,273	6,376,726
Total assets	9,997,699	13,917,210	23,914,909	7,341,138
Liabilities				
Accounts payable	664,963	556,337	1,221,300	185,210
Accrued and other liabilities	610,359	44,252	654,611	75,138
Accounts payable to component units (Note 6)	90,221	-	90,221	-
Due to other governmental units	-	-	-	18,000
Compensated absences due within one year	314,953	21,831	336,784	-
Debt obligations due within one year (Note 7)	82,511	360,000	442,511	-
Noncurrent liabilities:				
Accrued liabilities due in more than one year	242,459	-	242,459	-
Compensated absences due in more than one year	791,292	21,992	813,284	-
Debt obligations due in more than one year (Note 7)	1,748,720	8,311,531	10,060,251	-
Total liabilities	4,545,478	9,315,943	13,861,421	278,348
Net Assets				
Invested in capital assets - Net of related debt	5,789,136	3,724,430	9,513,566	6,376,726
Restricted:				
Streets and highways	173,032	-	173,032	-
Grants and property taxes	323,864	-	323,864	-
Covenant restriction (Note 8)	-	810,563	810,563	-
Unrestricted	(833,811)	66,274	(767,537)	686,064
Total net assets	\$ 5,452,221	\$ 4,601,267	\$ 10,053,488	\$ 7,062,790

City of Melvindale, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,859,834	\$ 363,035	\$ 26,174	\$ 13,644
Public safety	4,488,981	1,439,370	80,084	-
Public works	1,937,625	389,840	546,515	366,218
Health and welfare	145,469	-	-	-
Community and economic development	184,352	68,273	174,766	13,373
Recreation and culture	271,561	325,144	-	-
Interest on long-term debt	98,254	-	-	-
Total governmental activities	9,986,076	2,585,662	827,539	393,235
Business-type activities - Water and sewer	2,733,894	2,791,891	-	-
Business-type activities - Ice Arena	1,001,087	901,646	-	-
Total primary government	<u>\$ 13,721,057</u>	<u>\$ 6,279,199</u>	<u>\$ 827,539</u>	<u>\$ 393,235</u>
Component units:				
Housing Commission	\$ 1,711,440	\$ 492,865	\$ 982,047	\$ 109,559
Economic Development Corporation	38,653	37,150	-	-
Downtown Development Authority	374,339	-	-	259,436
Total component units	<u>\$ 2,124,432</u>	<u>\$ 530,015</u>	<u>\$ 982,047</u>	<u>\$ 368,995</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Loss on disposal of assets				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2003

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,456,981)	\$ -	\$ (2,456,981)	\$ -
(2,969,527)	-	(2,969,527)	-
(635,052)	-	(635,052)	-
(145,469)	-	(145,469)	-
72,060	-	72,060	-
53,583	-	53,583	-
(98,254)	-	(98,254)	-
(6,179,640)	-	(6,179,640)	-
-	57,997	57,997	-
-	(99,441)	(99,441)	-
(6,179,640)	(41,444)	(6,221,084)	-
-	-	-	(126,969)
-	-	-	(1,503)
-	-	-	(114,903)
-	-	-	(243,375)
4,204,415	-	4,204,415	104,260
1,873,350	-	1,873,350	-
11,246	-	11,246	3,922
95,449	-	95,449	-
236,622	-	236,622	-
(7,503)	(7,380)	(14,883)	-
6,413,579	(7,380)	6,406,199	108,182
233,939	(48,824)	185,115	(135,193)
5,218,282	4,650,091	9,868,373	7,197,983
\$ 5,452,221	\$ 4,601,267	\$ 10,053,488	\$ 7,062,790

City of Melvindale, Michigan

Governmental Funds Balance Sheet December 31, 2003

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 176,164	\$ 331,715	\$ 507,879
Receivables:			
Taxes	706,907	32,853	739,760
Other	149,176	135	149,311
Due from other funds (Note 6)	503,089	209,485	712,574
Long-term advance to other funds (Note 6)	56,926	-	56,926
Due from other governmental units	444,436	191,837	636,273
Total assets	<u>\$ 2,036,698</u>	<u>\$ 766,025</u>	<u>\$ 2,802,723</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 384,594	\$ 102,615	\$ 487,209
Accrued and other liabilities	570,694	650	571,344
Due to other funds (Note 6)	285,781	135,960	421,741
Accounts payable to component units	87,712	2,509	90,221
Deferred revenue (Note 4)	619,156	75,705	694,861
Total liabilities	1,947,937	317,439	2,265,376
Fund Balances			
Reserved for:			
Advance to Enterprise Fund	56,926	-	56,926
Grants	-	134,861	134,861
Unreserved, reported in:			
General Fund	31,835	-	31,835
Special Revenue Funds	-	313,725	313,725
Total fund balances	88,761	448,586	537,347
Total liabilities and fund balances	<u>\$ 2,036,698</u>	<u>\$ 766,025</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	7,620,367
Other receivables are expected to be collected over several years and are not available to pay for current year expenditures (net of allowances)	494,861
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Compensated absences	(1,106,245)
Judgments	(242,459)
Long-term debt and accrued interest	(1,851,650)
Net assets of governmental activities	<u>\$ 5,452,221</u>

City of Melvindale, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended December 31, 2003

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 4,291,691	\$ 179,633	\$ 4,471,324
Licenses and permits	334,132	-	334,132
Federal grants	-	186,990	186,990
State sources	1,973,358	545,002	2,518,360
Charges for services	672,338	-	672,338
Fines and forfeitures	1,228,704	-	1,228,704
Interest and rentals	69,199	3,020	72,219
Other	357,539	78,881	436,420
	<u>8,926,961</u>	<u>993,526</u>	<u>9,920,487</u>
Expenditures			
Community maintenance and development	-	163,259	163,259
General government	1,817,524	-	1,817,524
Public safety	3,428,622	53,929	3,482,551
Public works	1,328,681	534,366	1,863,047
Health and welfare	55,036	-	55,036
Recreation and culture	68,179	162,551	230,730
Employee benefits and insurance	1,900,185	-	1,900,185
Debt service	-	288,782	288,782
	<u>8,598,227</u>	<u>1,202,887</u>	<u>9,801,114</u>
Excess of Revenue Over (Under) Expenditures	328,734	(209,361)	119,373
Other Financing Sources (Uses)			
Transfers in	51,030	360,520	411,550
Transfers out	(189,490)	(222,060)	(411,550)
Bond issuance	-	1,005,000	1,005,000
Bond defeasance	-	(926,738)	(926,738)
	<u>(138,460)</u>	<u>216,722</u>	<u>78,262</u>
Net Change in Fund Balances	190,274	7,361	197,635
Fund Balances (Deficit) - Beginning of year	<u>(101,513)</u>	<u>441,225</u>	<u>339,712</u>
Fund Balances - End of year	<u><u>\$ 88,761</u></u>	<u><u>\$ 448,586</u></u>	<u><u>\$ 537,347</u></u>

City of Melvindale, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds	\$ 197,635
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(345,207)
Capital contribution from DDA is not a current financial resource	366,218
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	54,569
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	112,266
Bond proceeds are not reported as financing sources on the statement of activities (where it increases long-term debt)	(1,005,000)
Bond defeasance is not reported as financing uses on the statement of activities (where it reduces long-term debt)	875,000
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds	<u>(21,542)</u>

Change in Net Assets of Governmental Activities	<u>\$ 233,939</u>
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City of Melvindale, Michigan

Proprietary Funds Statement of Net Assets December 31, 2003

	Enterprise - Water and Sewer	Enterprise - Ice Arena	Total Enterprise Funds	Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents	\$ -	\$ 2,063	\$ 2,063	\$ 519
Receivables - Customers	1,230,947	220	1,231,167	-
Due from other funds - Current portion (Note 6)	50,000	-	50,000	195,831
Prepaid costs and other assets	55,260	71,250	126,510	-
Total current assets	1,336,207	73,533	1,409,740	196,350
Noncurrent assets:				
Long-term advance to other funds (Note 6)	210,000	-	210,000	-
Restricted assets	1,437,502	-	1,437,502	-
Capital assets	7,364,023	4,299,535	11,663,558	-
Total noncurrent assets	9,011,525	4,299,535	13,311,060	-
Total assets	10,347,732	4,373,068	14,720,800	196,350
Liabilities				
Current liabilities:				
Accounts payable	453,305	73,032	526,337	177,754
Accrued and other liabilities	71,106	16,969	88,075	18,596
Due to other funds - Current portion (Note 6)	386,664	150,000	536,664	-
Current portion of long-term debt	330,000	30,000	360,000	-
Total current liabilities	1,241,075	270,001	1,511,076	196,350
Noncurrent liabilities:				
Accounts payable - Net of current portion	30,000	-	30,000	-
Long-term advances from other funds (Note 6)	-	266,926	266,926	-
Long-term debt - Net of current portion	5,441,531	2,870,000	8,311,531	-
Total noncurrent liabilities	5,471,531	3,136,926	8,608,457	-
Total liabilities	6,712,606	3,406,927	10,119,533	196,350
Net Assets				
Investment in capital assets - Net of related debt	2,324,895	1,399,535	3,724,430	-
Restricted	810,563	-	810,563	-
Unrestricted	499,668	(433,394)	66,274	-
Total net assets	\$ 3,635,126	\$ 966,141	\$ 4,601,267	\$ -

City of Melvindale, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2003

	Enterprise - Water and Sewer	Enterprise - Ice Arena	Total Enterprise Funds	Internal Service Funds
Operating Revenue				
Sale of water	\$ 1,277,694	\$ -	\$ 1,277,694	\$ -
Sewage disposal charges	1,222,291	-	1,222,291	-
Charges for services and other	<u>283,763</u>	<u>905,751</u>	<u>1,189,514</u>	<u>1,113,200</u>
Total operating revenue	2,783,748	905,751	3,689,499	1,113,200
Operating Expenses				
Cost of water purchased	460,074	-	460,074	-
Cost of sewage treatment	872,152	-	872,152	-
Operation and maintenance	373,060	323,409	696,469	-
Billing and administrative costs	471,186	354,918	826,104	4,561
Depreciation and amortization	265,932	169,132	435,064	-
Employee insurance	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,108,639</u>
Total operating expenses	<u>2,442,404</u>	<u>847,459</u>	<u>3,289,863</u>	<u>1,113,200</u>
Operating Income	341,344	58,292	399,636	-
Nonoperating Revenue (Expenses)				
Investment income	8,143	-	8,143	-
Interest expense	(291,490)	(157,733)	(449,223)	-
Loss on disposal of assets	<u>-</u>	<u>(7,380)</u>	<u>(7,380)</u>	<u>-</u>
Total nonoperating revenue (expenses)	<u>(283,347)</u>	<u>(165,113)</u>	<u>(448,460)</u>	<u>-</u>
Change in Net Assets	57,997	(106,821)	(48,824)	-
Net Assets - Beginning of year	<u>3,577,129</u>	<u>1,072,962</u>	<u>4,650,091</u>	<u>-</u>
Net Assets - End of year	<u><u>\$ 3,635,126</u></u>	<u><u>\$ 966,141</u></u>	<u><u>\$ 4,601,267</u></u>	<u><u>\$ -</u></u>

City of Melvindale, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2003

	Enterprise - Water and Sewer	Enterprise - Ice Arena	Internal Service Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 2,577,604	\$ 905,570	\$ 1,135,665
Payments to suppliers	(1,390,959)	(293,212)	-
Payments to employees	(843,845)	(349,078)	-
Internal activity - Payments from other funds	201,341	(17,103)	386,131
Claims paid	-	-	(1,398,249)
Other receipts (payments)	218,995	-	(123,434)
Net cash provided by operating activities	763,136	246,177	113
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(15,573)	(1,410)	-
Principal payment on interfund borrowing	50,000	(50,000)	-
Principal and interest paid on capital debt	(573,216)	(232,825)	-
Proceeds from debt issuance	-	2,900,000	-
Defeasance of debt	-	(2,825,000)	-
Bond issuance costs	-	(75,000)	-
Net cash used in capital and related financing activities	(538,789)	(284,235)	-
Cash Flows from Investing Activities - Interest received on investments	8,143	92	-
Net Increase (Decrease) in Cash and Cash Equivalents	232,490	(37,966)	113
Cash and Cash Equivalents - Beginning of year	1,205,012	40,029	406
Cash and Cash Equivalents - End of year	<u>\$ 1,437,502</u>	<u>\$ 2,063</u>	<u>\$ 519</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ -	\$ 2,063	\$ 519
Restricted investments (Note 3)	1,437,502	-	-
Total cash and cash equivalents	<u>\$ 1,437,502</u>	<u>\$ 2,063</u>	<u>\$ 519</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 341,344	\$ 58,292	\$ -
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	265,932	169,132	-
Changes in assets and liabilities:			
Receivables	12,851	(180)	22,465
Other assets	31,112	-	392,053
Accounts payable	(58,733)	30,196	(118,873)
Accrued and other liabilities	170,630	(11,263)	(295,532)
Net cash provided by operating activities	<u>\$ 763,136</u>	<u>\$ 246,177</u>	<u>\$ 113</u>

City of Melvindale, Michigan

Fiduciary Funds Statement of Net Assets December 31, 2003

	Trust Fund - Policemen and Firemen Retirement System I	Agency Fund - Tax Collection
Assets		
Cash and cash equivalents	\$ 4,000	\$ -
Investments:		
Corporate bonds	1,519,346	-
U.S. government securities	4,579	-
Common and preferred stock	1,394,824	-
Bank investment pool funds and mutual funds	535,303	730,375
Guaranteed insurance contracts	377,576	-
Life insurance policies	3,363,132	-
Foreign stock investment pools	62,376	-
Deposits	13,621	-
Receivables:		
Taxes	1,156,644	-
Other	65,603	-
Total assets	8,497,004	<u>\$ 730,375</u>
Liabilities		
Accrued and other liabilities	70,714	\$ -
Due to other governmental units	-	730,375
Total liabilities	<u>70,714</u>	<u>\$ 730,375</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 8,426,290</u>	

City of Melvindale, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended December 31, 2003

	Trust Fund - Policemen and Firemen Retirement System I
Additions	
Investment income:	
Interest and dividends	\$ 83,330
Net increase in cash surrender value of life insurance policies	72,527
Life insurance proceeds*	82,102
Realized and unrealized gain on investments	267,172
Less investment expenses	<u>(14,327)</u>
Net investment income	490,804
Employer contributions	<u>1,232,729</u>
Total additions	1,723,533
Deductions - Benefit payments	<u>1,283,452</u>
Net Increase	440,081
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>7,986,209</u>
End of year	<u><u>\$ 8,426,290</u></u>

* Total proceeds received were \$250,000, but are reported net of the cash surrender value of the policy previously recorded on the City's books as an asset.

City of Melvindale, Michigan

Component Units Statement of Net Assets December 31, 2003

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Totals
Assets				
Cash and investments	\$ 434,450	\$ 55,189	\$ 124,886	\$ 614,525
Receivables	38,833	-	-	38,833
Due from other governmental units	-	-	184,745	184,745
Receivable from primary government	-	30,000	60,221	90,221
Inventories	2,970	-	33,118	36,088
Capital assets	<u>6,376,726</u>	<u>-</u>	<u>-</u>	<u>6,376,726</u>
Total assets	6,852,979	85,189	402,970	7,341,138
Liabilities				
Accounts payable	9,986	1,956	173,268	185,210
Accrued and other liabilities	74,138	1,000	-	75,138
Due to other governmental units	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>18,000</u>
Total liabilities	<u>102,124</u>	<u>2,956</u>	<u>173,268</u>	<u>278,348</u>
Net Assets				
Investment in capital assets - Net of related debt	6,376,726	-	-	6,376,726
Unrestricted	<u>374,129</u>	<u>82,233</u>	<u>229,702</u>	<u>686,064</u>
Total net assets	<u>\$ 6,750,855</u>	<u>\$ 82,233</u>	<u>\$ 229,702</u>	<u>\$ 7,062,790</u>

City of Melvindale, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Housing Commission - Senior Citizen Housing Project	\$ 1,711,440	\$ 492,865	\$ 982,047	\$ 109,559
Economic Development Corporation - Public works	38,653	37,150	-	-
Downtown Development Authority:				
Public works	8,121	-	-	-
Contribution to City	<u>366,218</u>	<u>-</u>	<u>-</u>	<u>259,436</u>
Total Downtown Development Authority	<u>374,339</u>	<u>-</u>	<u>-</u>	<u>259,436</u>
Total component units	<u>\$ 2,124,432</u>	<u>\$ 530,015</u>	<u>\$ 982,047</u>	<u>\$ 368,995</u>

General Revenues

Capture taxes

Interest and other

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended December 31, 2003**

Net (Expense) Revenue and Changes in Net Assets			
Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
\$ (126,969)	\$ -	\$ -	\$ (126,969)
-	(1,503)	-	(1,503)
-	-	(8,121)	(8,121)
-	-	(106,782)	(106,782)
-	-	(114,903)	(114,903)
(126,969)	(1,503)	(114,903)	(243,375)
-	-	104,260	104,260
3,334	40	548	3,922
3,334	40	104,808	108,182
(123,635)	(1,463)	(10,095)	(135,193)
6,874,490	83,696	239,797	7,197,983
\$ 6,750,855	\$ 82,233	\$ 229,702	\$ 7,062,790

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Melvindale, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Melvindale, Michigan:

Reporting Entity

The City of Melvindale, Michigan is governed by an elected six-member council and an elected mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are separate legal entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The Policemen and Firemen Retirement System I has been blended into the City's financial statements. The Policemen and Firemen Retirement System I is governed by a three-member board that consists of a combination of participants in the systems and individuals chosen by the mayor and City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

The City of Melvindale Building Authority was formed for the purpose of constructing public facilities financed through the issuance of Building Authority bonds as provided by Public Act 31 of 1948. The Building Authority Board is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct certain City public buildings.

Discretely Presented Component Units

The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district and to promote economic growth within the downtown district. The DDA's governing body, which consists of 11 individuals, is appointed by the mayor, subject to approval of the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA's administrative offices are located at 3100 Oakwood Boulevard, Melvindale, Michigan.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City. The EDC's governing body, which consists of nine individuals, is appointed by the mayor, subject to approval of the City Council. The EDC's administrative offices are located at 3100 Oakwood Boulevard, Melvindale, Michigan.

The Housing Commission was created to provide public housing to senior citizens and other residents of the City. The Housing Commission also administers the federally funded housing certificate program. The Housing Commission's governing body, which consists of five individuals, is selected by the mayor. The Housing Commission is located at 3501 Oakwood Boulevard, Melvindale, Michigan.

The Brownfield Redevelopment Authority was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the City limits. The Brownfield Redevelopment Authority is funded primarily by property tax revenue captures. The Brownfield Redevelopment Authority is governed by a board that is appointed by the mayor and confirmed by the City Council. No activity related to tax revenue capture occurred during the year ended December 31, 2003.

Separate financial statements for the above discretely presented component units are not prepared.

Jointly Governed Organizations

Jointly governed organizations are discussed in Note 14.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Note I - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the activities of the water distribution and sewage collection systems.

Ice Arena Fund - The Ice Arena Fund accounts for the activity of the John Kessey Ice Arena, which primarily is the revenue related to charges for services and rentals along with the expenses of maintaining and operating the John Kessey Ice Arena.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City. The City's Internal Service Fund is used to account for current health care coverage provided for City employees.

Pension Trust Fund - The Pension Trust Fund accounts for the activities of the City's defined benefit pension plan, the Policemen and Firemen Retirement System I. The plan accumulates resources for pension benefit payments to qualified employees.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations. The City's Agency Fund is the Tax Collection Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and Ice Arena function of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) and the cost of infrastructure as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices, except for the life insurance policies, which are stated at cash surrender value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Taxes - Properties are assessed as of December 31 of each year. The related taxes are billed on July 1 and become a lien on December 1 of the following year, at which time penalties and interest are assessed. The judgment levy for the Policemen and Firemen Pension System I is levied on December 1 each year.

The City's 2003 tax is levied and collectible on July 1, 2003, and is recognized as revenue in the year ended December 31, 2003, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the City totaled \$185,404,453, on which taxes levied consisted of 19.8549 mills for operating purposes, 2.9768 mills for garbage and rubbish services, 0.9922 mills for library services, and 7 mills for the Policemen and Firemen Pension System I judgment levy. This resulted in approximately \$4,100,000 for operating and garbage collection purposes, \$180,000 for library purposes, and \$1,200,000 for the Policemen and Firemen Pension System I judgment levy. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Fiduciary Fund financial statements as tax revenue.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements. Real estate inventories of the component units are valued at the lower of cost (specific identification including demolition cost) or market.

Restricted Assets - The revenue bonds of the Enterprise Fund require amounts to be set aside for debt service. In addition, unspent bond proceeds in the Enterprise Fund are required to be set aside for construction.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 to 25 years
Water and sewer facilities	20 to 45 years
Buildings and improvements	20 to 50 years
Machinery and equipment	2 to 35 years
Furniture and fixtures	2 to 15 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall is as follows:

Shortfall at January 1, 2003	\$ (170,795)
Current year building permit revenue	213,843
Related expenses:	
Direct costs	\$ 228,838
Estimated indirect costs	<u>39,018</u>
Total construction code expenses	<u>267,856</u>
Cumulative shortfall at December 31, 2003	<u>\$ (224,808)</u>

Noncompliance with Legal or Contractual Provisions - The City's revenue bond ordinance contains covenants (described in Note 7) requiring the City to have restricted assets of \$810,563 at December 31, 2003. The amount available to be restricted was \$705,099 at December 31, 2003.

The City has not currently adopted a formal policy to make and accept electronic fund transfers (ACH payments). A formal policy is required under Public Act 738.

The City has not currently adopted a formal policy to utilize credit cards. A formal policy is required under Public Act 266.

Fund Deficits - The City has a deficit in the Community Development Block Grant Fund at December 31, 2003 due to revenue that was not received within 60 days of year end. The receivable for these monies was recorded along with the corresponding deferred revenue at December 31, 2003.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated six banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all of the items described above, except for repurchase agreements and obligations of the State of Michigan or its political subdivisions.

The Pension Trust Fund is also authorized by Michigan Public Act 55 of 1982 (as amended) to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City of Melvindale, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and investments	\$ 508,398	\$ 2,063	\$ 7,991,511	\$ 8,501,972	\$ 614,525
Restricted assets	-	1,437,502	-	1,437,502	-
Total	<u>\$ 508,398</u>	<u>\$ 1,439,565</u>	<u>\$ 7,991,511</u>	<u>\$ 9,939,474</u>	<u>\$ 614,525</u>

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 133,984	\$ 61,788
Investments in securities, mutual funds, and similar vehicles	9,802,066	552,637
Petty cash or cash on hand	3,424	100
Total	<u>\$ 9,939,474</u>	<u>\$ 614,525</u>

Deposits

The bank balance of the City's deposits is approximately \$1,008,000, of which \$200,000 is covered by federal depository insurance and \$808,000 is uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$138,456, all of which is covered by federal depository insurance.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured, registered, or securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2003

Note 3 - Deposits and Investments (Continued)

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds	\$ -	\$ 1,519,346	\$ -	\$ 1,519,346
U.S. government securities	-	4,579	-	4,579
Common and preferred stock	-	1,394,824	-	1,394,824
Commercial paper	-	600,255	-	600,255
Subtotal	<u>\$ -</u>	<u>\$ 3,519,004</u>	<u>\$ -</u>	<u>3,519,004</u>
Investments not subject to categorization:*				
U.S. government pooled investment, mutual funds, and other bank investment pool funds				2,479,979
Guaranteed insurance contracts				377,576
Life insurance policies - Cash surrender value				3,363,131
Foreign stock investment pools				<u>62,376</u>
Total primary government				<u>\$ 9,802,066</u>
Component units - Bank investment pool funds				<u>\$ 552,637</u>

* These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes these investments comply with the investment authority noted above.

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

Note 3 - Deposits and Investments (Continued)

Included in the City's investments in the pension system at December 31, 2003 is the following:

- Approximately \$4,600 of securities issued by the Federal National Mortgage Association (FNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable - Governmental Activities
Delinquent personal property taxes	\$ 373,367
Delinquent real property taxes	255,984
Grants receivable	<u>65,510</u>
Total	<u>\$ 694,861</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2003

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance January 1, 2003	Additions	Disposals and Adjustments	December 31, 2003
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 897,711	\$ 13,644	\$ 5,950	\$ 905,405
Construction in progress	-	283,247	-	283,247
Subtotal	897,711	296,891	5,950	1,188,652
Capital assets being depreciated:				
Roads and sidewalks	3,235,637	62,378	10,912	3,287,103
Buildings and improvements	2,932,335	-	-	2,932,335
Machinery and equipment	4,575,774	73,556	16,073	4,633,257
Subtotal	10,743,746	135,934	26,985	10,852,695
Accumulated depreciation:				
Roads and sidewalks	1,426,523	113,617	10,912	1,529,228
Buildings and improvements	1,044,991	75,705	-	1,120,696
Machinery and equipment	1,570,577	214,999	14,520	1,771,056
Subtotal	4,042,091	404,321	25,432	4,420,980
Net capital assets being depreciated	6,701,655	(268,387)	1,553	6,431,715
Net capital assets	<u>\$ 7,599,366</u>	<u>\$ 28,504</u>	<u>\$ 7,503</u>	<u>\$ 7,620,367</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2003

Note 5 - Capital Assets (Continued)

	Balance January 1, 2003	Additions	Disposals and Adjustments	Balance December 31, 2003
Business-type Activities				
Capital assets being depreciated:				
Water and sewer facilities	\$ 6,136,690	\$ -	\$ -	\$ 6,136,690
Furniture and fixtures	365,843	1,409	25,382	341,870
Machinery and equipment	1,011,949	6,813	-	1,018,762
Building and improvements	7,935,804	8,760	-	7,944,564
Subtotal	15,450,286	16,982	25,382	15,441,886
Accumulated depreciation:				
Mains - Water	1,335,445	149,379	-	1,484,824
Furniture and fixtures	189,764	38,166	18,002	209,928
Machinery and equipment	815,956	44,187	-	860,143
Buildings	1,023,850	199,583	-	1,223,433
Subtotal	3,365,015	431,315	18,002	3,778,328
Net capital assets being depreciated	12,085,271	(414,333)	7,380	11,663,558
Net capital assets	<u>\$ 12,085,271</u>	<u>\$ (414,333)</u>	<u>\$ 7,380</u>	<u>\$ 11,663,558</u>

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2003

Note 5 - Capital Assets (Continued)

Capital asset activity for the City of Melvindale's component units for the year was as follows:

	Balance January 1, 2003	Additions	Disposals and Adjustments	Balance December 31, 2003
Housing Commission				
Capital assets not being depreciated -				
Land	\$ 200,000	\$ -	\$ -	\$ 200,000
Capital assets being depreciated:				
Machinery and equipment	836,784	5,600	36,226	806,158
Building and improvements	9,416,177	119,846	1,192	9,534,831
Subtotal	10,252,961	125,446	37,418	10,340,989
Accumulated depreciation:				
Machinery and equipment	533,088	47,029	34,717	545,400
Building and improvements	3,360,386	258,603	126	3,618,863
Subtotal	3,893,474	305,632	34,843	4,164,263
Net capital assets being depreciated	6,359,487	(180,186)	2,575	6,176,726
Net capital assets	\$ 6,559,487	\$ (180,186)	\$ 2,575	\$ 6,376,726

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 48,722
Public safety	136,701
Public works	148,448
Health and welfare	42,639
Recreation and culture	27,811
Total governmental activities	\$ 404,321
Business-type activities:	
Water and Sewer	\$ 265,932
Ice Arena	165,383
Total business-type activities	\$ 431,315
Component units - Housing Commission	\$ 305,632

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2003

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund (major fund)	Water and Sewer Fund (major fund)	\$ 267,129
	Ice Arena Fund (major fund)	100,000
	Nonmajor funds	<u>135,960</u>
	Total General Fund	503,089
Nonmajor governmental funds	General Fund (major fund)	209,485
Water and Sewer Fund (major fund)	Ice Arena Fund (major fund)	50,000
Internal Service Fund	General Fund (major fund)	76,296
	Water and Sewer Fund (major fund)	<u>119,535</u>
	Total Internal Service Fund	<u>195,831</u>
	Total	<u>\$ 958,405</u>
Advances from/to Other Funds		
General Fund (major fund)	Ice Arena Fund (major fund)	\$ 56,926
Water and Sewer Fund (major fund)	Ice Arena Fund (major fund)	<u>210,000</u>
		<u>\$ 266,926</u>
Due to/from Primary Government and Component Units		
Receivable Fund	Payable Fund	Amount
Component unit - Economic Development Corporation	Primary government - General Fund	\$ 30,000
Downtown Development Authority	Primary government - General Fund	57,712
Downtown Development Authority	Primary government - Other nonmajor funds	<u>2,509</u>
	Total Downtown Development Authority	<u>60,221</u>
Total primary government	Primary government - General Fund	<u>\$ 90,221</u>

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfer Out		
	Nonmajor		
	Governmental		
	General Fund	Funds	Total
Transfers in:			
General Fund	\$ -	\$ 51,030	\$ 51,030
Nonmajor governmental funds	<u>189,490</u>	<u>171,030</u>	<u>360,520</u>
Total	<u>\$ 189,490</u>	<u>\$ 222,060</u>	<u>\$ 411,550</u>

The transfer from the General Fund was to the Debt Service Fund and represents the movement of resources to be used to service general obligation debt. The General Fund received a transfer from the Community Development Block Grant Fund for a debt service payment and the Community Development Block Grant Fund also transferred funds to the Debt Service Fund for this same purpose. Remaining transfers were primarily between the City's two street funds to distribute Act 51 revenue from the Major Street Fund to the Local Street Fund where the funds were when spent.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2003

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
2000 Building Authority Bonds Amounts of issue: \$800,000 Maturing through 2015	5.50% - 5.80%	\$30,000 - \$90,000	\$ 750,000	\$ -	\$ (30,000)	\$ 720,000	\$ 30,000
1997 Building Authority Bonds, Series B* Amounts of issue: \$1,000,000 Maturing through 2017	4.80% - 7.00%	\$25,000 - \$100,000	900,000	-	(900,000)	-	-
2003 Building Authority Refunding Bonds Amounts of issue: \$1,005,000 Maturing through 2022	1.25% - 4.40%	\$10,000 - \$77,500	-	1,005,000	-	1,005,000	10,000
Installment purchase agreements - Sweeper and Loader agreement Amounts of issue: \$109,010 Maturing through 2003	4.45%	\$22,600	22,600	-	(22,600)	-	-
Ambulance agreement Amounts of issue: \$117,000 Maturing through 2005	5.51%	\$25,980 - \$37,534	82,345	-	(18,831)	63,514	25,980
Telephone system agreement Amounts of issue: \$81,139 Maturing through 2006	4.35%	\$8,917 - \$17,267	58,552	-	(15,835)	42,717	16,531
Total governmental activities			1,813,497	1,005,000	(987,266)	1,831,231	82,511
Business-type Activities							
1996 Water Supply and Sewage Disposal System Revenue Refunding Bonds Amounts of issue: \$2,695,000 Maturing through 2011	4.45% - 5.35%	\$35,000 - \$300,000	2,090,000	-	(180,000)	1,910,000	200,000
1997 Water Supply and Sewage Disposal System Revenue Bonds Amounts of issue: \$1,500,000 Maturing through 2016	4.90% - 5.70%	\$25,000 - \$150,000	1,375,000	-	(50,000)	1,325,000	50,000
1998 Water Supply and Sewage Disposal System Revenue Bonds Amounts of issue: \$900,000 Maturing through 2018	4.10% - 5.10%	\$25,000 - \$100,000	825,000	-	(25,000)	800,000	25,000
1999 Water Supply and Sewage Disposal System Revenue Bonds Amounts of issue: \$1,100,000 Maturing through 2019	2.50%	\$25,000 - \$100,000	965,000	-	(45,000)	920,000	45,000
2001 Water Supply and Sewage Disposal System Revenue Bonds Amounts of issue: \$995,000 Maturing through 2021	5.00% - 7.00%	\$10,000 - \$100,000	995,000	-	(10,000)	985,000	10,000
1997 Building Authority Bonds, Series A* Amounts of issue: \$3,100,000 Maturing through 2022	4.80% - 7.00%	\$75,000 - \$200,000	2,900,000	-	(2,900,000)	-	-
2003 Building Authority Refunding Bonds Amounts of issue: \$2,900,000 Maturing through 2022	1.25% - 4.40%	\$30,000 - \$232,500	-	2,900,000	-	2,900,000	30,000
Less deferred charge on refunding	N/A	N/A	(190,769)	-	22,300	(168,469)	-
Total business-type activities			\$ 8,959,231	\$ 2,900,000	\$ (3,187,700)	\$ 8,671,531	\$ 360,000

* Defeased debt during the year ended December 31, 2003

City of Melvindale, Michigan

Notes to Financial Statements December 31, 2003

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations (excluding amortization of bond issuance costs and discounts) are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 82,511	\$ 78,247	\$ 160,758	\$ 360,000	\$ 372,832	\$ 732,832
2005	107,669	75,881	183,550	372,132	361,739	733,871
2006	99,103	71,516	170,619	504,814	345,815	850,629
2007	98,899	68,166	167,065	521,101	325,818	846,919
2008	98,899	64,316	163,215	541,101	304,264	845,365
2009-2013	634,680	248,834	883,514	2,945,320	1,129,415	4,074,735
2014-2018	503,284	97,416	600,700	2,631,716	510,115	3,141,831
2019-2023	206,186	24,171	230,357	963,816	88,742	1,052,558
Total	<u>\$ 1,831,231</u>	<u>\$ 728,547</u>	<u>\$ 2,559,778</u>	<u>\$ 8,840,000</u>	<u>\$ 3,438,740</u>	<u>\$ 12,278,740</u>

The water supply and sewage disposal system revenue bonds were issued to finance the acquisition and construction of additions, extensions, and improvements to the City's water supply and sewage disposal system. Principal and interest on the bonds are payable solely from the revenue of the water and sewer system and from certain funds and accounts as established by the bond ordinance.

The revenue bond ordinance contains certain covenants and restrictions that, among other matters, relate to the following:

- Establishment of rates to customers of the system that, together with other system income, are reasonably expected to produce annual net revenue sufficient to provide for 125 percent of the annual debt service requirements on the bonds (135 percent in years when new debt is issued) and to provide for other expenditures of the system so long as any bonds are outstanding.
- Periodic transfers of net revenue to a fund segregated for debt service payments so that the balance in the fund is equal to the lesser of the maximum annual debt service requirements on the bonds for any future year or 10 percent of the principal amounts on the bonds. Additionally, each month a portion of the next principal and interest payment on each revenue bond must be transferred to a separate fund segregated to pay the next debt service payment.
- Adoption of and adherence to budgeted expenses
- Segregation of Water and Sewer Fund revenue

Note 7 - Long-term Debt (Continued)

- Segregation of assets for construction of improvements to the system
- Prohibited sale, lease, or other disposition of all or any substantial part of the system

Defeased Debt - During the year, the City issued \$3,905,000 in general obligation bonds with an interest rate ranging from 1.25 percent - 4.40 percent. The proceeds of these bonds were used to advance refund \$2,825,000 of outstanding governmental activities bonds and \$875,000 of outstanding Ice Arena Fund bonds with an interest rate ranging from 4.80 percent - 7.00 percent. The proceeds of \$2,826,000 for governmental activities and \$926,700 for the Ice Arena Fund, which are net of bond issuance costs and premiums of approximately \$152,300, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the governmental activities debt in the statement of net assets and long-term debt in the Enterprise Fund, respectively. The advance refunding reduced total debt service payments over the next 18 years by approximately \$138,000, which represents an economic gain of approximately \$106,000. At December 31, 2003, \$3,700,000 of bonds outstanding are considered defeased.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At December 31, 2003, \$1,800,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities
Unspent bond proceeds and related interest	\$ 732,403
Revenue bond restrictions - Debt payments	<u>705,099</u>
Total restricted assets	<u><u>\$ 1,437,502</u></u>

In addition, net assets have been restricted for \$810,563, which represents the annual debt service requirement.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all claims arising from the various risks noted above except for claims related to medical benefits. The City is partially uninsured for claims arising from medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City assumes claim costs for employees' health care claims within certain limits. The City has purchased excess insurance, both for specific occurrences in excess of \$55,000 per individual up to a maximum of \$945,000 per individual and for aggregate claims exceeding approximately \$1,378,000 occurring within the insurance policy period from November 1, 2003 through October 31, 2004. The sum of the City's aggregate loss funds (which represents the amount before which aggregate excess insurance will pay for any claims) less claims incurred through December 31, 2003 totals approximately \$556,000.

The City estimates the liability for health care claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability for the past two fiscal years were as follows:

	2003	2002
Unpaid claims - Beginning of year	\$ 296,627	\$ 410,953
Incurred claims (including claims incurred but not reported)	1,108,639	1,256,680
Claim payments	(1,227,512)	(1,371,006)
Unpaid claims - End of year	<u>\$ 177,754</u>	<u>\$ 296,627</u>

Note 10 - Defined Benefit Pension Plan - Michigan Municipal Employees' Retirement System

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers certain general, police, and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The City has assumed the responsibility to contribute an annual amount as determined by the actuary on behalf of general, police, and fire employees.

Annual Pension Cost - For the year ended December 31, 2003, the City's annual pension cost was \$726,760. The City contributed 100 percent of the annual pension cost as determined through an actuarial valuation as of December 31, 2001, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, and (b) projected salary increases of 4.5 percent per year. Item (b) includes an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Trend information is as follows for the years ended December 31:

	2001	2002	2003
Annual pension costs (APC)	\$ 695,110	\$ 694,542	\$ 726,760
Percentage of APC contributed	96%	100%	100%
Net pension obligation	\$ 27,900	\$ -	\$ -
Actuarial Valuation as of December 31			
	2000	2001	2002
Actuarial value of assets	\$ 10,611,238	\$ 11,700,814	\$ 12,361,618
Actuarial accrued liability (AAL) (entry age)	\$ 16,010,524	\$ 17,526,850	\$ 19,085,810
Unfunded AAL (UAAL)	\$ 5,399,286	\$ 5,826,036	\$ 6,724,192
Funded ratio	66.30%	66.76%	64.77%
Covered payroll	\$ 3,639,841	\$ 3,830,619	\$ 3,979,065
UAAL as a percentage of covered payroll	148.34%	152.09%	168.99%

Note 11 - Retirement Plan - Policemen and Firemen Retirement System I

Plan Description - The Policemen and Firemen Retirement System I is a single-employer defined benefit pension plan that is administered by the City of Melvindale Police and Fire Employees' Retirement System I. This plan covers policemen and firemen hired on or before April 6, 1965. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2002, the date of the most recent actuarial valuation, membership consisted of 29 retirees and beneficiaries currently receiving benefits. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by a court order. Until 1987, the system paid pensions that were currently payable and did not fund for future pension expense. As discussed in Note 15, beginning in 1987, the City's contributions have been based on amounts collected through a court-ordered levy. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended December 31, 2003, the City's annual pension cost was approximately \$1,232,700 for the plan. The employer contributions for the system were based on taxes collected through a court-ordered property tax levy. Significant actuarial assumptions used include (a) a 7.0 investment rate of return, and (b) an inflation rate of 3.0 percent. The actuarial value of assets was determined using the market value of the assets. The unfunded actuarial liability is being amortized by level dollar contributions over a period of eight future years.

Reserves - As of December 31, 2003, the plan's legally required reserves have been fully funded as follows:

Reserve for retired benefit payments	\$8,426,290
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City of Melvindale, Michigan

Notes to Financial Statements December 31, 2003

Note 11 - Retirement Plan - Policemen and Firemen Retirement System I (Continued)

Trend information is as follows for the years ended December 31:

	2001	2002	2003
Annual pension costs (APC)	\$ 1,719,593	\$ 1,261,500	\$ 1,232,700
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 12 - Subsequent Event - Tax Anticipation Notes

On January 5, 2004, the City issued \$1,200,000 of tax anticipation notes, bearing interest at 2.25 percent. The proceeds of the notes are to be used to finance operations of the City. The notes are to be repaid in August 2004 from collections of the July 1, 2004 property tax levy.

Note 13 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain full-time employees upon retirement, in accordance with labor contracts. Currently, 65 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment life insurance benefits are recognized as the insurance premiums become due.

Because the City is self-insured for health care, expenditures are recognized as claims are incurred and excess insurance premiums become due. The City has established a premium to reflect the monthly cost of claims to be charged to the Water and Sewer Fund in lieu of charging for actual claims. The Pension Fund is billed quarterly for actual claims incurred. During the year, the total cost to the City of these benefits was approximately \$622,000. Of this amount, the Policemen and Firemen Retirement System I was billed approximately \$290,000, the Water and Sewer Fund was billed approximately \$52,000, and the General Fund paid approximately \$280,000.

Note 14 - Joint Venture

The City is a member of the 24th District Court, which provides services to the City of Melvindale and the City of Allen Park. The City has a one-third interest in the 24th District Court.

Note 14 - Joint Venture (Continued)

The participating communities provide annual funding for its operations and receive a portion of fines and fees collected. During the current year, the City contributed approximately \$871,000 for its operations and received approximately \$1,229,000 in fines and forfeitures. The City has a nonmaterial equity interest in the 24th District Court at December 31, 2003. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments. Complete financial statements for the 24th District Court can be obtained from the administrative offices at 6515 Roosevelt Road, Allen Park, Michigan.

Note 15 - Pension Judgment Levy

In prior years, the City did not make contributions to the Policemen and Firemen Retirement System I as was required by the Constitution of the State of Michigan. The City was sued by members of the system to require the City to begin funding the plan on an actuarial basis. In 1987, the court entered a judgment requiring the City to levy up to 10 mills per year on all taxable property within the City until the system has no unfunded liabilities as determined by an actuarial study. From 1987 through 2001, the City levied 10 mills for this purpose. During the year ended December 31, 2002, the Court approved and order reducing the levy to 7 mills. It is estimated that the amount remaining to be funded approximates \$2,421,000 at December 31, 2002, the date of the latest actuarial valuation.

Note 16 - Contingent Liabilities

The City has been named as a defendant in certain claims and lawsuits requesting damages of various amounts, the majority of which do not state a specific maximum. The various proceedings have not yet progressed to the point where a legal opinion can be reached as to the ultimate liability, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability at December 31, 2003.

Personal Property Tax Multipliers

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables affected taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission, challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

Note 16 - Contingent Liabilities (Continued)

During 2003, the tax tables were again upheld on appeal. The amounts paid to the City in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$232,000 from the General Fund, \$10,000 from the Library Fund, and \$71,000 from the Policemen and Firemen Retirement System I pension fund. Appeals are still being undertaken by taxing authorities and the matter is not expected to be settled in the next fiscal year. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at December 31, 2003.

Note 17 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Melvindale has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City as well as assets totaling approximately \$13,572,356 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at January 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$5,166,536 to reflect the historical cost of the City's capital assets at that date.
- The governmental activities column includes bonds and other long-term obligations totaling \$1,813,497 previously reported in the General Long-term Debt Account Group.

Required Supplemental Information

City of Melvindale, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2002

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Resources (Inflows)				
Property tax	\$ 4,546,975	\$ 4,500,054	\$ 4,291,691	\$ (208,363)
State of Michigan	1,748,953	1,978,786	1,973,358	(5,428)
Other	3,004,513	2,582,037	2,828,301	246,264
Total revenues and other sources	9,300,441	9,060,877	9,093,350	32,473
Charges to Appropriations (Outflows)				
Council	17,800	17,700	17,500	200
District Court	960,000	901,956	871,276	30,680
Mayor	60,510	57,459	61,600	(4,141)
Controller	166,492	130,827	109,999	20,828
Election	24,960	11,200	10,253	947
Auditing	65,000	55,000	53,550	1,450
Corporation Counsel	177,500	177,500	189,951	(12,451)
City Clerk	117,011	115,402	112,035	3,367
Board of Review	2,100	2,000	2,150	(150)
Treasurer/Assessor	145,666	141,872	164,563	(22,691)
Data processing	35,000	35,000	43,685	(8,685)
Police	2,098,219	2,031,181	2,153,205	(122,024)
Fire	1,111,205	1,022,432	1,263,663	(241,231)
Mutual aid	12,500	11,865	11,754	111
Department of Public Works	606,577	561,215	615,820	(54,605)
Street lighting	175,000	175,000	170,467	4,533
Contributions to other funds	1,288,368	1,368,580	961,428	407,152
Refuse	516,500	523,500	542,394	(18,894)
Swimming pool	53,715	52,350	3,722	48,628
Senior citizens - Van program	67,893	62,620	55,036	7,584
Parks and recreation	72,543	77,447	64,457	12,990
Insurance	523,100	528,150	400,831	127,319
MERS	686,000	651,216	842,775	(191,559)
Miscellaneous	157,567	145,316	157,202	(11,886)
Contingency	134,215	169,089	5,753	163,336
TANA interest	25,000	35,000	18,007	16,993
Total expenditures and other uses	<u>\$ 9,300,441</u>	<u>\$ 9,060,877</u>	<u>\$ 8,903,076</u>	<u>\$ 157,801</u>

City of Melvindale, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress December 31, 2003

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<u>Policemen and Firemen Retirement System I</u>						
12/31/97	\$ 5,153,197	\$ 11,115,309	\$ 5,962,112	46.36	*	*
12/31/98	5,910,312	12,079,988	6,169,676	48.93	*	*
12/31/99	6,342,996	11,778,189	5,435,193	53.85	*	*
12/31/00	7,368,583	11,446,127	4,077,544	64.38	*	*
12/31/01	7,970,981	10,796,790	2,825,809	73.83	*	*
12/31/02	7,986,209	10,407,175	2,420,966	76.74	*	*

* For valuations dated after December 31, 1996, the System consists entirely of retirees and beneficiaries.

Schedule of Employer Contributions

Year Ended December 31	Annual Pension Costs	Percentage Contributed
1998	\$ 1,627,634	100.0
1999	1,574,614	100.0
2000	1,660,824	100.0
2001	1,719,593	100.0
2002	1,261,455	100.0
2003	1,232,730	100.0

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation, is as follows:

Policemen and Firemen Retirement System I

Actuarial cost method	Individual entry age
Amortization method	Level dollar
Amortization period	8 years
Asset valuation method	Market value of assets
Actuarial assumptions:	
Investment rate of return	7.0%
Post-retirement cost of living adjustments	3.0%

City of Melvindale, Michigan

Note to Required Supplemental Information

Note - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers, debt proceeds, bond premiums, and sales of fixed assets have been included in the "revenue" and/or "expenditure" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end. The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council.

The budget process is initiated in September, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the finance director, on or before November 1. During the month of November, the finance director and city administrator review the appropriation requests, meet with the departments and the mayor, and put together the budget. The budget is submitted to the City Council on or before December 1. During the next two weeks, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by a resolution no later than December 31.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis level.

The amount of encumbrances outstanding at December 31, 2003 has not been calculated. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Following is a reconciliation of the budget statement of the General Fund and other major funds to the operating statement:

	Budget Statement	Operating Transfers	Reimbursement	Operating Statement
General Fund - Total revenue	\$ 9,093,350	\$ (51,030)	\$ (115,359)	\$ 8,926,961
General Fund - Total expenditures	8,903,076	(189,490)	(115,359)	8,598,227

City of Melvindale, Michigan

Note to Required Supplemental Information

Note - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Melvindale, Michigan incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Police	\$ 2,031,181	\$ 2,153,205
General Fund - Fire	1,022,432	1,263,663
General Fund - MMERS	651,216	746,323

Expenditures for police exceeded budget as a result of an officer receiving a pay out of accumulated compensated absences in the current year for retirement, as well as an increase in overtime as a result of the drug and traffic enforcement programs. Expenditures for fire exceeded budget as a result of a firefighter receiving a pay out of accumulated compensated absences in the current year for retirement, as well as an increase in overtime. Expenditures for MMERS exceeded budgeted amounts due to the City's required contribution increasing due to the lower rate of return on investments.

Other Supplemental Information

City of Melvindale, Michigan

	Special Revenue Funds				
	Major Roads	Local Roads	Library	Drug Forfeiture	Community Development Block Grant
Assets					
Cash and investments	\$ 94,276	\$ 8,974	\$ 73,108	\$ 134,835	\$ 20,522
Receivables:					-
Taxes	-	-	32,853	-	-
Other	-	-	135	-	-
Due from other funds	-	47,374	160,845	1,266	-
Due from other governmental units	60,302	24,930	-	-	106,605
Total assets	<u>\$ 154,578</u>	<u>\$ 81,278</u>	<u>\$ 266,941</u>	<u>\$ 136,101</u>	<u>\$ 127,127</u>
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 27,047	\$ 26,908	\$ 47,384	\$ 1,240	\$ 36
Accrued and other liabilities	-	-	650	-	-
Due to other funds	8,869	-	-	-	127,091
Accounts payable to component units	-	-	2,509	-	-
Deferred revenue	-	-	27,395	-	48,310
Total liabilities	35,916	26,908	77,938	1,240	175,437
Fund Balances (Deficit)					
Reserved	-	-	-	134,861	-
Unreserved	118,662	54,370	189,003	-	(48,310)
Total fund balances (deficit)	118,662	54,370	189,003	134,861	(48,310)
Total liabilities and fund balances (deficit)	<u>\$ 154,578</u>	<u>\$ 81,278</u>	<u>\$ 266,941</u>	<u>\$ 136,101</u>	<u>\$ 127,127</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2003**

Total Nonmajor
Governmental
Funds

\$ 331,715

32,853

135

209,485

191,837

\$ 766,025

\$ 102,615

650

135,960

2,509

75,705

317,439

134,861

313,725

448,586

\$ 766,025

City of Melvindale, Michigan

	Special Revenue Funds				
	Major Roads	Local Roads	Library	Drug Forfeiture	Community Development Block Grant
Revenue					
Property taxes	\$ -	\$ -	\$ 179,633	\$ -	\$ -
Federal sources	-	-	-	-	186,990
State sources	385,574	159,428	-	-	-
Interest income	989	524	285	1,203	19
Other	-	-	-	78,881	-
Total revenue	386,563	159,952	179,918	80,084	187,009
Expenditures					
Current:					
Community maintenance and development	-	-	-	-	163,259
Public safety	-	-	-	53,929	-
Public works	214,786	319,580	-	-	-
Recreation and cultural	-	-	162,551	-	-
Debt service	-	-	-	-	-
Total expenditures	214,786	319,580	162,551	53,929	163,259
Excess of Revenue Over (Under)					
Expenditures	171,777	(159,628)	17,367	26,155	23,750
Other Financing Sources (Uses)					
Issuance of debt	-	-	-	-	-
Defeasance on debt	-	-	-	-	-
Transfers in	-	150,000	-	-	-
Transfers out	(150,000)	-	-	-	(72,060)
Total other financing sources (uses)	(150,000)	150,000	-	-	(72,060)
Net Change in Fund Balances	21,777	(9,628)	17,367	26,155	(48,310)
Fund Balances - Beginning of year	96,885	63,998	171,636	108,706	-
Fund Balances (Deficit) - End of year	<u>\$ 118,662</u>	<u>\$ 54,370</u>	<u>\$ 189,003</u>	<u>\$ 134,861</u>	<u>\$ (48,310)</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2003

Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ 179,633
-	186,990
-	545,002
-	3,020
-	78,881
-	993,526
-	163,259
-	53,929
-	534,366
-	162,551
288,782	288,782
288,782	1,202,887
(288,782)	(209,361)
1,005,000	1,005,000
(926,738)	(926,738)
210,520	360,520
-	(222,060)
288,782	216,722
-	7,361
-	441,225
\$ -	\$ 448,586

City of Melvindale

Federal Awards Supplemental Information December 31, 2003

City of Melvindale

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Melvindale

We have audited the basic financial statements of the City of Melvindale for the year ended December 31, 2003 and have issued our report thereon dated May 21, 2004. Those basic financial statements are the responsibility of the management of the City of Melvindale. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Melvindale taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

May 21, 2004

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Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements

To the Honorable Mayor and
Members of the City Council
City of Melvindale

We have audited the financial statements of the City of Melvindale as of and for the year ended December 31, 2003 and have issued our report thereon dated May 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Melvindale's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We did, however, note an instance of noncompliance with laws and regulations, described as item 03-I in the accompanying schedule of findings and questioned costs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Melvindale's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Honorable Mayor and
Members of the City Council
City of Melvindale

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Melvindale's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 03-1.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Melvindale in a separate letter dated May 21, 2004.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

May 21, 2004

Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

To the Honorable Mayor and
Members of the City Council
City of Melvindale

Compliance

We have audited the compliance of the City of Melvindale with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2003. The major federal programs of the City of Melvindale are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the City of Melvindale's management. Our responsibility is to express an opinion on the City of Melvindale's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Melvindale's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Melvindale's compliance with those requirements.

In our opinion, the City of Melvindale complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

To the Honorable Mayor and
Members of the City Council
City of Melvindale

Internal Control Over Compliance

The management of the City of Melvindale is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Melvindale's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 03-2.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

May 21, 2004

Schedule of Expenditures of Federal Awards Year Ended December 31, 2003

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures	Award Amount
U.S. Department of Housing and Urban Development:				
Community Development Block Grant passed through Wayne County, Michigan:				
Program year 2001	14.218	B-01-UC-26-0003	\$ 7,660	\$ 214,000
Program year 2002	14.218	B-02-UC-26-0003	79,201	318,000
Program year 2003	14.218	B-03-UC-26-0003	<u>148,458</u>	<u>231,000</u>
Total Community Development Block Grant			235,319	
Public Housing Capital Fund MI28P04850101	14.872	N/A	82,391	261,556
Public Housing Capital Fund MI28P04850102	14.872	N/A	27,539	247,089
Public Housing Capital Fund MI28P04850103	14.872	N/A	-	191,832
Public Housing Capital Fund MI28P04850203	14.872	N/A	<u>-</u>	<u>40,517</u>
Total Public Housing Capital Fund			109,930	
Performance Funding - Public Operating Subsidy	14.850	N/A	337,946	337,946
Section 8 - Low Income Housing Assistance Voucher Program	14.871	N/A	<u>644,101</u>	<u>644,101</u>
Total U.S. Department of Housing and Urban Development			1,327,296	
U.S. Department of Transportation - Federal Transportation Enhancement Grants passed through Michigan Department of Transportation:				
Transportation Enhancement Grant ENH00194	20.205	STP-0082(224)	31,807	226,108
Transportation Enhancement Grant ENH01072	20.205	STP-0282(323)	<u>232,481</u>	<u>334,000</u>
Total U.S. Department of Transportation			264,288	
U.S. Environmental Protection Agency:				
Illicit Discharge Investigation and Elimination and Sanitary Sewer Evaluation Study - Rouge River Grant passed through Wayne County, Michigan	66.unknown	XP995743	33,177	75,000
Rouge River National Wet Weather Demonstration Project - GIS Round 2 Project	66.unknown	X995743-04	<u>28,725</u>	<u>28,750</u>
Total U.S. Environmental Protection Agency			61,902	
U.S. Department of Homeland Security - Federal Emergency Management Agency	97.036	163-52940	<u>17,200</u>	<u>17,200</u>
Total federal expenditures			<u>\$ 1,670,686</u>	

City of Melvindale

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended December 31, 2003

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,278,596
Federal revenue reported in other revenue categories in the financial statements	67,144
Capital contributions from federal sources	259,436
Add deferred revenue reported for the year ended December 31, 2003 for reimbursement grants due to Governmental Accounting Standards Board Statement No. 33	<u>65,510</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 1,670,686</u>

City of Melvindale

Note to Schedule of Expenditures of Federal Awards Year Ended December 31, 2003

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Melvindale and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

City of Melvindale

Schedule of Findings and Questioned Costs Year Ended December 31, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
14.871	Section 8 - Low Income Housing Assistance Voucher Program
14.850	Performance Funding - Public Operating Subsidy

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Melvindale

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2003

Section II - Financial Statement Audit Findings

Reference Number	Findings
03-I	<p>Finding Type - Reportable condition; legal noncompliance</p> <p>Condition - The City did not have the appropriate level of restricted assets related to their revenue bond ordinance at December 31, 2003.</p> <p>Description - The City used a portion of restricted bond reserve monies for a debt service payment in 2003. This use resulted in the City not having the required amount of restricted assets at December 31, 2003 based on debt covenants. We recommend the City calculate the necessary level of reserve annually and ensure that such usage does not occur in the future.</p> <p>Grantee Response - The use of restricted assets was inadvertent. Policies and procedures have been established for an environment with adequate cash management.</p>

City of Melvindale

Schedule of Findings and Questioned Costs (Continued) Year Ended December 31, 2003

Section III - Federal Program Audit Findings

Reference Number	Findings
03-2	<p>Program Name - Section 8 - Low Income Housing Assistance Voucher Program</p> <p>Finding Type - Material noncompliance</p> <p>Criteria - The regulations stipulate that family income and composition be examined at least once every 12 months to verify continued eligibility for the program.</p> <p>Condition - There were several instances noted where the Housing Commission did not complete the examination within 12 months of the previous examination. All noted cases were examined subsequent to the 12-month period and these tenants still met the eligibility requirements.</p> <p>Questioned Costs - None</p> <p>Recommendation - We recommend the Housing Commission review its procedures for determining when examinations are needed and ensure they are designed to ensure all examinations are performed within the required timeframe.</p> <p>Grantee Response - We agree with the finding and will implement procedures to ensure that examinations are performed within the required timeframe.</p>

May 21, 2004

Honorable Mayor and Members
of the City Council
City of Melvindale
3100 Oakwood Boulevard
Melvindale, MI 48122

Dear Council Members:

We have recently completed the audit of the financial statements of the City of Melvindale for the year ended December 31, 2003. In addition to our audit report, we offer the following comments and recommendations for your consideration:

NEW FINANCIAL STATEMENT FORMAT

During the current year, the City, along with many other communities in Michigan, was required to implement a new accounting pronouncement (Governmental Accounting Standards Board Statement Number 34 – GASB 34) that has changed the format and content of your financial statements. The information that was previously provided in your financial statements has been retained in the new financial statement format. In addition, the following major items have been added:

- *Management Discussion and Analysis:* Management is now required to give an overview of the City's overall financial position and results of operations. This section provides an overview of the City's finances, as well as major projects worked on throughout the year.
- *Government-wide Financial Statements:* These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's taxpayers paying the full cost of today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's financial picture.
- *Budget Comparison:* A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the amended budget, but also as compared to the original budget.

While getting used to the new format may take a while, the Governmental Accounting Standards Board hopes that the new model will improve comparability of financial statements among communities and will provide a better matching of the current year's revenue sources to the full cost of services provided during that year.

NEW FINANCIAL STATEMENT FORMAT (CONTINUED)

Accumulating the information necessary for the new financial statement format has meant a significant amount of work for the City's finance department. The City's staff has worked hard, preparing the necessary schedules, as well as assisting and cooperating with the audit work being done on those schedules. We encourage the City to establish procedures to ensure that the information and the systems developed to produce the data to implement GASB 34 can be reproduced in future years. For example, the City's finance department did an excellent job of reconciling detailed fixed asset listings for current assets and updating that listing for 2003 additions and deletions. We would strongly encourage the City to continue to maintain and reconcile that listing to the general ledger, to ensure assets are properly recognized. In addition, the City's current capitalization threshold is \$500. The City may want to consider reviewing the capitalization policies to determine if that threshold is still reasonable for financial statement reporting purposes.

We would be happy to discuss any questions you may have about the new statements and how to best interpret the information provided.

FINANCIAL RESULTS

For the year ended December 31, 2003, the City's General Fund fund deficit was eliminated by General Fund net income of approximately \$190,000. As a result, the City's General Fund went from a deficit of \$101,513 at December 31, 2002 to a surplus of \$88,761 at December 31, 2003. While State shared revenue decreased another 7.6% from 2002 levels, the City continued to implement procedures to attempt to negate the continued decreases in State shared revenue and restricted property tax growth under Proposal A and the Headlee Amendment. The City, again, experienced the benefit from its 2002 Headlee Override vote which generated approximately 14% of additional property tax revenue as compared to 2001 levels. The City continued the use of the daily cash flow analysis tools to maximize cash flow, worked to minimize capital spending, attempted to control operating costs, and expanded its cost allocation program. In addition, the City took advantage of decreased interest rates and defeased its 1997 Building Authority Bonds, Series A and B that had an interest rate ranging from 4.80 to 7.00 percent, issuing new general obligation bonds with an interest rate ranging from 1.25 to 4.40 percent. The decreased interest rates will serve to decrease cash outflow in both the General Fund and the Ice Arena Fund. During 2003, the City also benefited from a decrease in overall costs in employee benefits and insurance of approximately 3% from 2002 to 2003 and budgeted these costs conservatively. The City also received additional revenue from the Metro Act monies, back payments from the Senior Van Grant, and a non-recurring class action settlement. While we compliment the City for its many proactive methods of cost cutting and revenue enhancement, we caution the City that some revenue received in 2003 will not be available in 2004.

With these decreasing revenue streams caused by the reduction in State shared revenue and other economic factors affecting municipal finance, it is growing more difficult for local governments to fund essential community costs. With the exception of local governments with a growing tax base and room for more development, there are structural problems with the municipal finance model in the State. Municipalities in Michigan face numerous challenges to their ability to raise revenue. In general, these factors would include the restricted growth of property tax revenue under Proposal A and the Headlee Amendment, decreased investment returns, and overall increasing healthcare and employee benefit costs.

FINANCIAL RESULTS (CONTINUED)

Even with the excellent progress that the City has made over the last several years to eliminate its General Fund deficit, the future remains challenging for Melvindale and other local governments in Michigan. In particular, the City benefited from a significant one-time revenue source in 2003 that will not repeat. The City has been required to spend only minimal amounts on general capital needs in recent years due to its financial condition, and the General Fund budget is heavily impacted by fluctuations in health care costs. Additionally, despite the successful Headlee override vote in 2002, the City's operating, refuse and library millage rates are being rolled back again, as required by the Headlee Amendment. Along with other municipalities, the City faces the potential liability associated with refunding certain personal property taxes paid by utilities which would negatively impact the City and exhaust any General Fund balance at December 31, 2003.

We would strongly encourage the City to consider taking its financial planning one step further (from both an operational and capital perspective) over a multi-year period. The City should continue to review its long range financial plans through the use of a five-year plan model in order to ensure continued financial viability over the long-run in this uncertain municipal environment.

ACCOUNT RECONCILIATIONS

For the first time in many years, the bank reconciliations and interfund reconciliations were done timely during the entire fiscal year. As the City recognizes, these improvements in the City's accounting system have been crucial in the daily cash flow analysis needed to eliminate the General Fund fund deficit. As mentioned in the prior year, the City should continue to monitor its online access to all bank accounts to ensure they are making use of all tools available to them for the tracking of cash flow on a real time basis, and develop a process to incorporate the reconciliation of the pension accounts into the City's monthly closing given the recent change in investment advisors.

INTERFUND RECEIVABLES AND PAYABLES

The City has several funds that are used to record the many activities that the City is involved in (for example, the General Fund, the Water Fund, the Major Street Fund, etc.). Through the course of normal operations, "interfund" receivables and payables are created between the various funds. We have worked with the City in the past few years and would like to commend the City on its hard work in implementing a process that reconciles and settles the amount of receivables and payables between funds on a monthly basis when possible. Additionally, the City has several longer term borrowings from the General Fund and the Water and Sewer Fund to the Ice Arena Fund. The City continues to plan and budget for the Ice Arena to pay back a certain amount to both the General Fund and the Water Fund annually.

In addition, the City may want to consider a financial analysis on a historic and prospective basis with relation to the Ice Arena operations. This tool could assist the City in projecting cash flow in the Ice Arena Fund, which will help to predict cash flow in General Fund and Water Fund based on the level of availability of the Ice Arena Fund to pay down the interfund debt. This tool could also assist the City in determining the need for any adjustment in the fees and/or operating costs of the Ice Arena necessary to generate desired levels of cash flow from operations. As mentioned in previous years, the Major and Local Street Fund cannot be used for general operating purposes. As of the date of our audit report, the General Fund owes the Local Street Fund approximately \$47,000.

FUND DEFICIT

At December 31, 2003 the City's Community Development Block Grant Fund was in a deficit. This was primarily due to the timing of submissions of reimbursement requests at year-end with the County related to the Community Development Block Grant program and the City's adoption of GASB 33, which changed the revenue recognition criteria for grant revenue (i.e. monies must now be received within 60 days of year-end to be recorded as revenue). The City should proactively submit a deficit elimination plan to the State and indicate that the deficit is caused by the revenue recognition criteria related to GASB 33.

WATER AND SEWER FUND

Bond Ordinance - The bond ordinance related to the water and sewer revenue bond issues stipulates that the City will establish water and sewer rates on an annual basis that are reasonably expected to yield net revenues that will equal or exceed 125% of the aggregate debt service requirements for the forthcoming 12 month period (135% in years where the City plans to issue debt). While this is a prospective test (i.e. based on adopted budget), it is important that the City's actual results meet the covenant requirements. For 2003, the City's actual debt service coverage ratio was again less than 125%. The City has incurred additional debt within the past few years and should continue to monitor its compliance with this requirement.

In addition, the bond ordinance stipulates that the City periodically transfer net revenue to a fund segregated for debt service payments so that the balance in the fund is equal to the lesser of the maximum annual debt service requirements on the bonds for any future year or 10 percent of the principal amount of the bonds. Based on the covenant, the City was required to have restricted assets of \$810,563 at December 31, 2003. The amount available to be restricted was only \$705,094 at December 31, 2003. It is our understanding that the City monitors the fund throughout the year to try to maintain the required balance even with cash flow restrictions.

Billing adjustments – During the audit we noted certain billing adjustments to the Water and Sewer revenue accounts that are not part of the normal billing process. It does not appear that these adjustments are being reviewed for reasonableness and accuracy. We recommend the City consider having the water department supervisor review these postings periodically to ensure revenues are being properly reconciled.

Unspent Bond Proceeds – The Water and Sewer Fund issued revenue bonds in 2001 in the amount of \$995,000. At December 31, 2003, approximately \$730,000 of these proceeds remained. Our understanding of the bond covenants indicates that 85% of the original proceeds must be spent within 3 years of bond issuance (by December 31, 2004). We recommend the City review its capital outlay plan for the Water and Sewer Fund for 2004, to ensure these expenditures have been planned.

Sales Trends – Over the past several years, the City's water and sewer units billed have been steadily decreasing. We would encourage the City to review this trend and determine if this trend relates to meter accuracy and/or a steady decline in customer base. In addition, the City will need to be mindful of this trend when preparing future financial forecasts and rate setting for this fund.

PERMIT FEES AND DEPOSITS

The City charges various fees for construction and related permits. The City should consider periodically reviewing these fees to ensure they are covering the related costs of the building department (i.e. inspections, etc.). The City should continue to be mindful of the State Construction Code Act in establishing these types of fees.

The City has several escrow accounts for collection of building bond deposits and similar items. It does not appear that the City has reconciled these accounts in the last few years. We recommend the City consider implementing periodic reconciliation procedures for these accounts, which will better identify potential forfeited deposits and perhaps potential revenue sources for the City.

HEALTH CARE AND OTHER COSTS

As previously mentioned, healthcare costs continue to be a significant cost to the City. We continue to recommend that the City aggressively review all of its options related to healthcare benefits provided (i.e. increased co-payments, higher deductibles, alternative insurance, etc.). In addition, for health insurance cost allocation, the City is currently using COBRA rates to calculate the portion of self-insurance costs allocated to the Water and Sewer Fund. With the continual rising costs of health care, the City may want to calculate actual health insurance costs for the Water and Sewer Fund to properly allocate costs.

BUDGETING

We noted several instances of noncompliance with the requirements of the State of Michigan Budget Act for 2003. For 2004, the City is making every effort to be in compliance with the requirements of the State of Michigan Budget Act, and is aware of its importance as a tool to help the City spend in a manner consistent with its objectives, especially in light of the continual challenges that the City faces involving its major revenue sources. Items and recommendations noted are as follows:

1. Expenditures should not be made in excess of budgeted amounts
2. Budgets are required for the General Fund, and all Special Revenue Funds. We recommend that a formal, calendar year budget be adopted for the Downtown Development Authority.

REMOTE LOCATION CASH RECEIPTS

Ideally, all cash should be collected at the Treasurer's office. We realize that there may be situations where this is not practical, in which case cash must be collected at remote locations. Currently, cash is collected at the following remote locations: Fire Department, Police Department, Water Department, Ice Arena, Senior Center Banquet Hall and Library. In some instances, prenumbered receipts are issued to customers at these locations. In addition, summary sheets have been devised which list the sequence of prenumbered receipts written on a daily basis. While requiring the departments to account for the numerical sequence improves the internal control related to the collections, we suggest that the City institute a system to independently verify (at least on a periodic basis) the numerical sequence of cash receipts used at other locations and evaluate whether the locations' internal controls are functioning properly.

REMOTE LOCATION CASH RECEIPTS (CONTINUED)

More specifically, an individual in the Treasurer's office should verify that all cash receipt forms are accounted for on a daily basis and should periodically compare the summary sheet received with the department's copy. The absence of this control feature increases the risk of mishandling of funds that would not be detected within a timely period by the Treasurer's office employees and management in the normal course of performing their duties. As a further control, we suggest the Treasurer's office issue the blank prenumbered cash receipt books to the remote locations and note the issuance and sequence of numbers in a log. In addition, we suggest that deposits are brought over to the Treasurer's department more frequently, that checks received at remote locations are restrictively endorsed, and that a review is done by a third party of the daily treasurer's reconciliation.

INTERNAL CONTROL CONSIDERATIONS

During the year's audit, we were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled *Consideration of Fraud in a Financial Statement*. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit. Therefore, most of the comments noted below are a result of the additional procedures applied through the implementation of SAS 99.

Journal Entry Access - It appears that eight employees have the ability to make general ledger journal entries in the system. These individuals include some employees that would also have access to cash, accounts payable, and payroll. The City should consider limiting the ability to make general ledger journal entries only to the City's Finance Department in order to ensure segregation of duties where possible.

Property Room - We observed the procedures for drug forfeiture items seized by the Police Department and discussed the department's procedures with several members of the staff. We provided a separate communication to the administration of the City with our observations and recommendations.

Petty Cash Audits - We noted the City does not have formal reconciliation procedures or periodic audits for petty cash accounts. Also, when reviewing requests for reimbursement, we noted some payments were processed without supporting documentation. We recommend the City consider conducting periodic audits of the petty cash accounts, to ensure funds are properly reconciled. In addition, the City may consider developing a uniform request for reimbursement that provides the accounts payable clerk with the amount requested and also reconciles to cash on hand and the total amount authorized to ensure requests are not granted for more than the total amounts authorized.

Procurement - During our testing, we noted that the City's purchasing procedures were not consistently applied to all repair and maintenance expenditures.

LEGISLATIVE AND OTHER MATTERS

State Shared Revenue

As mentioned above, the City will continue to feel the effects of the State's budget difficulties. State shared revenue accounts for approximately 22% of the City's total General Fund revenue. While statewide sales tax collections (the sole source of revenue sharing payments to local units of government) are actually increasing, the State's income tax and single business tax revenues continue to be disappointing, resulting in state budget problems.

As a result, the State reduced its revenue sharing payments in each of the years ended September 30, 2002, 2003 and now 2004. The Governor has presented her proposal for the September 30, 2005 budget to the Legislature. The Governor's proposal is to hold State shared revenue steady for cities, townships and villages for 2005. Counties would find their State shared revenue eliminated and be allowed to levy taxes for deposit into an escrow fund to be used to assist with the loss of revenue sharing over a period of years. The Legislature continues to debate the Governor's budget proposal, which could be modified prior to passage.

It appears that the short term future of State shared revenue could be tied to the increase in the cigarette tax. Also, the counties are opposed to the elimination of statutory revenue sharing. Due to this line item in the State's budget remaining vulnerable, we continue to urge the City to be conservative in its estimation of State shared revenue. We recommend the City budget at least 5% less than 2003/2004 levels. This will serve as a precautionary measure against the State's uncertain budget.

We recommend that the City continue to evaluate the impact of the revenue sharing reductions on the 2004 and 2005 budget. Updated information can be obtained from the Department of Treasury's web site or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the City as developments occur.

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%
1999	1.6%	1994	3.0%

LEGISLATIVE AND OTHER MATTERS (CONTINUED)

Property Taxes (continued)

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2003 inflation factor was used for property taxes levied in the City's year ended December 31, 2003. Property taxes are the City's largest source of General Fund revenue. However growth in existing property can be significantly limited due to Proposal A. As the City is aware, this factor should be considered when the City is involved in long-term financial planning. The 2004 inflation factor is 2.3%.

As noted during the 2002 Headlee override vote process, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City was no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. As mentioned in the prior year, the Headlee override vote allowed the City to roll back up to its City Charter of 20 mills for operations and 3 mills for refuse.

While this served to increase property tax revenue for the City, the City is still required to "roll back" its property tax rate to inflation, and the City Charter rates have again begun to be reduced by this inflation limitation leading to decreased property tax revenues.

As mentioned in the previous year, for personal property tax bills issued in the year 2000, the revised personal property tax tables implemented by the State Tax Commission were in effect. In addition to revisions made to the general personal property tax tables, the State Tax Commission also approved new personal property tax tables for utilities. The new tables made drastic changes to the transmission and distribution property of utilities. General estimates are that use of the new utility tables result in approximately a 30% revenue loss on those properties. The City, like many other communities, had elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables. This issue was the subject of a lawsuit brought by several units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. The new utility personal property tax tables implemented by the State Tax Commission were upheld in the lawsuit and recently on appeal. Ultimately, an unfavorable judgment could result in refunds of approximately \$232,000 from the General Fund, \$10,000 from the Library Fund, and \$71,000 from the Policemen and Firemen Retirement System (as of December 31, 2003).

LEGISLATIVE AND OTHER MATTERS (CONTINUED)

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (June 30, 2004) and is good for one year thereafter.

Changes in the Single Audit Act

The Single Audit Act specifies the requirement for compliance auditing of federal funding received by not-for-profits and state and local governments. In 2003, legislation to amend the Single Audit Act was signed into law. These revised audit requirements are effective for audits of not-for-profit organizations and state and local governments receiving federal awards for years ending **after** December 31, 2003. The law raises the audit threshold from \$300,000 to \$500,000. This means that if a covered entity recognizes less than \$500,000 in federal expenditures in its fiscal year, then a single audit is not required.

Credit Card Policy

We would encourage the City to explore whether the current credit card policy is adequate to cover current credit card usage within the City. In addition, the City has several purchasing cards issued to various departments/employees. We recommend the City review its internal controls related to the issuance of the credit cards, as well as approvals related to the monthly bills as part of this process.

ACH Transfer Policy

Recently, Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted. Beginning immediately, a local unit's governing body may need to adopt a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
 - describe the goods or services purchased,
 - the cost,
 - date of payment, and
 - the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit, and we would again like to commend the City and its financial staff for the improvements made to the City's financial management systems and for the successful implementation of GASB 34. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

PLANTE & MORAN, LLP



Frank W. Audia



Kathryn Kercorian



Stacey Reeves

June 8, 2004

Members of the Housing Commission Board
City of Melvindale Housing Commission
3501 Oakwood Boulevard
Melvindale, MI 48122

Dear Board Members:

We have recently completed our audit of the financial statements of the City of Melvindale and federal awards audit, which included two major programs of the Housing Commission for the year ended December 31, 2003. During our testing, we noted the following items in addition to those disclosed in the federal awards financial statements (i.e. finding regarding continued tenant eligibility) that may warrant your consideration:

Section 8 Program

It is our understanding that the Housing Commission is required to conduct inspections of rental units at least annually. We noted several instances where the inspections did not occur on an annual basis. We also noted instances when certain applicants were removed from the wait list without notification and certain tenant files did not contain all required supporting documentation.

While it is difficult to achieve segregation of duties in smaller organizations, it appears that one individual is primarily responsible for operating and overseeing the Section 8 program. We would recommend that the Commission consider cross training another individual to assist with the program when the primary individual is unavailable and to provide another form of checks and balances for reporting and monitoring of compliance requirements.

We appreciate the opportunity to serve the Housing Commission. We would like to thank the staff of the Housing Commission for the cooperation extended to us during the audit. If you have any questions regarding this letter, please feel free to contact us.

Yours truly,

PLANTE & MORAN, PLLC



Frank W. Audia



Stacey L. Reeves

A member of



A worldwide association of independent accounting firms



CITY OF MELVINDALE

3100 Oakwood Blvd. • Melvindale, Michigan 48122

Phone: (313) 429-1040 • Fax: (313) 383-3993

June 4, 2004

Federal Audit Clearing House
Bureau of the Census
1201 E. 10th Street
Jeffersonville, IN 47132

Re: Fiscal Year 2003

Auditors:

We are providing this summary schedule of prior audit findings, and questioned costs related to fiscal year 2002 with the status of each finding:

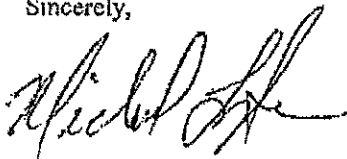
<u>Reference #</u>	<u>Findings</u>
02-1	<p>Finding Type -- Reportable condition deemed a material weakness</p> <p>Condition -- The entity did not prepare timely bank or account reconciliations. (Repeat finding)</p> <p>Description -- In order to maintain adequate internal control, timely interfund reconciliations should be prepared. We recommend, and the City of Melvindale concurs, that timely account reconciliations be Prepared in the future.</p> <p>Grantee Response -- Policies and procedures have been established to complete the preparation of account reconciliations on a monthly basis.</p> <p>Status -- Fully corrected.</p>
02-2	<p>Finding Type -- Reportable condition deemed a material weakness</p> <p>Condition -- the entity did not have appropriate cash management procedures in place during the year ended December 31, 2002.</p> <p>Description -- Changes in the City's cash management system resulted in the commingling of certain restricted monies with the City's operating cash. This resulted in the City inappropriately using a large portion of restricted monies for general purposes in 2002. This use resulted in the City not having the required amount restricted assets at December 31, 2002 based on debt covenants. We recommend the City establish cash management procedures that segregate restricted funds to prevent erroneous usage in the future.</p>

Federal Audit Clearing House
Bureau of the Census
Page 2 of 2.

Grantee Response – The use of restricted assets was inadvertent and as of the report date, the restricted assets were fully restored. Policies and procedures have been established to provide for an environment with adequate cash management,

Status – Fully corrected.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Lofton", written in a cursive style.

Michael Lofton
Finance Director

ML.gjm

CITY OF MELVINDALE**Corrective Action Plan for the Year Ended 2003**

Finding Number	Responsible Individual	Management Views	Corrective Action	Anticipated Completed Date
03-1	MARK KIBBY	AGREE WITH THE FINDING AND THE RECOMMENDATION	CALCULATE REQUIRED BOND RESERVE ON AN ANNUAL BASIS TO DETERMINE ADEQUATE RESERVE LEVELS	PROCEDURES HAVE BEEN IMPLEMENTED
03-2	SANDY LAW	AGREE WITH THE FINDING AND THE RECOMMENDATION	DEVELOP PROCEDURES TO ENSURE ELIGIBILITY EVALUATIONS ARE PERFORMED WITHIN REQUIRED TIME FRAME	July 1, 2004